

Message Text

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C O N F I D E N T I A L CAIRO 2072

EXDIS

DEPT PASS TREASURY

E.O. 11652: GDS

TAGS: EFIN, EG

SUBJ: MEETING WITH GOE FINANCE MINISTER

ON HIGHER INTEREST RATE AND

EGYPTIAN POUND DEPOSITS IN CHASE

REF: CAIRO 1354

1. I MET TODAY WITH MINFINANCE ABU ISMAIL TO DISCUSS, AMONG OTHER THINGS, OUR DESIRE TO OBTAIN HIGHER INTEREST RATE ON OUR PL 480 CURRENCY ACCOUNTS AND, SEPARATELY, TO TRANSFER LE 10 MILLION TO CHASE AS TIME DEPOSIT. AS REPORTED REFTEL, I HAD GIVEN HIM A COPY OF THE AIDE MEMOIRE ON THE SUBJECT, WHICH I HAD LEFT EARLIER THIS MONTH WITH CENTRAL BANK GOVERNOR ZENDOU AND WHICH BOTH HE AND ZENDOU PROMISED TO STUDY.

HIGHER INTEREST RATE: ALLUDING TO OUR AIDE MEMOIRE, I AGAIN WENT THROUGH THE REASONS WHY WE BELIEVE A HIGHER INTEREST RATE SHOJLD BE ALLOWED FOR OUR EGYPTIAN POUND HOLDINGS. WHILE WE HAD EARLIER AGREED TO A .5 PERCENT RATE IN THE KNOLEDGE SUCH DEPOSITS WERE NOT AT THE TIME BEING ALLOWED HIGHER INTEREST RATES, THIS SITUATION HAS RECENTLY CHANGED. I KNEW, FOR EXAPMPLE, THAT SOME TIME DEPOSITS IN EGYPT ARE NOW ALLOWED TO CARRY AS MUCH
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AS 5 PERCENT INTEREST. NOTING THE GAO AND CONGRESS

ARE INTERESTED IN HAVING OUR FOREIGN CURRENCY ACCOUNTS EARN REASONABLE INTEREST RATES, I POINTED OUT IMPORTANCE TO GOE THAT THERE BE NO SUGGESTION USG IS BEING DISCRIMINATED AGAINST IN TERMS OF INTEREST RATE.

3. PREDICTABLY, ABU ISMAIL MADE IMPASSIONED PLEA THAT GOE -- AND PARTICULARLY HE, AS MINFIANCE -- IS ALREADY SUFFERING HEAVY FINANCIAL BURDEN, WHICH HE IS HAVING TROUBLE MANAGING. WE WERE AWARE OF THE IMPOVERISHED SITUATION IN EGYPT. TO GIVE US A HIGHER INTEREST RATE WOULD, ABU ISMAIL ARGUED, HAVE AN INFLATIONARY EFFECT. GOE IS ALREADY DEEPLY CONCERNED ABOUT INFLATION IN EGYPT AND HE IS TRYING TO CONTRACT THE MONEY SUPPLY. HE ACKNOWLEDGED THAT, IN AN EFFORT TO SOAK UP SOME OF THE POUNDS IN CIRCULATION BY ENCOURAGING SAVINGS, GOE HAS RECENTLY PERMITTED POSTAL SAVINGS TO EARN 5 PERCENT. HOWEVER, HE INSISTED, AT LEAST HALF OF THESE EARNINGS ARE TAKEN BACK IN TAXES. THUS, NET INTEREST RATE ON POSTAL SAVINGS ON WHICH HIGHEST INTEREST IS ALLOWED IS NO MORE THAN 2 TO 2 1/4 PERCENT AFTER TAXES. IN ANY CASE, US ACCOUNTS ARE IN A TOTALLY DIFFERENT CATEGORY. WE WENT THROUGH THIS FOR THE BETTERN PART OF AN HOUR, AND I KEPT ON POITING OUT GOE SHOULD NOT DISCRIMINATE AGAINST US ACCOUNTS.

4. ABU ISAMIL FINALLY ASKED WHAT RATE WE HAD IN MIND. I SUGGESTED 5 PERCENT. HE SAID GOE COULD NOT DO THIS AND WENT THROUGH ALL OF THE ARGUMENTS AGAIN, THIS TIME ADDING ANOTHER ONE. IF WE NEEDED MORE POUNDS, WHICH HE DID NOT THINK WE DID, WE WERE ALREADY EARNING THEM ON CONTINUING PL 480 WHEAT SALES. I POINTED OUT THIS IS NOT CORRECT. PL 480 WHEAT/WHEAT FLOUR SALES, SINCE THEIR RESUMPTION IN 1974, ARE PAYABLE IN DOLLARS AT CONCESSIONARY RATE. IN ANY CASE, WE WERE NOT PLANNING TO DRAW DOWN OUR EGYPTIAN POUND HOLDINGS

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AT ANY GREATER RATE (ALTHOUGH WE MIGHT HAVE SOME SPECIAL REQUIREMENTS) BUT SIMPLY BELIEVE IT IS IN EGYPT'S INTEREST AND IN THE INTEREST OF QUITY THAT USG ACCOUNTS BE TREATED AS FAVORABLY AS OTHER ACCOUNTS. SINCE WE HAVE NO INTENTION OF PUTTING ANY SUCH ADDITIONAL EARNINGS INTO CIRCULATION, HIS CONCERN ABOUT POSSIBLE INFLATIONARY EFFECT OUTH TO BE FULLY MANAGEABLE.

5. ABU ISMAIL FINALLY SUGGESTED A 1 PERCENT INTEREST RATE, NOTING THIS WOULD DOUBLE WHAT WE ARE CURRENTLY EARNING. HE INSISTED THAT, IN EGYPT'S CURRENT STRAITENED FINANCIAL CIRCUMSTANCES, THIS IS THE BEST HE COULD DO. EVEN THEN HE WOULD HAVE TO SUBMIT IT TO PRIMIN AND CABINET, WHO WOULD DOUBTLESS DEMUR. I SUGGESTED THAT WE CHECK PRECISE NET INTEREST WHICH POSTAL SAVINGS ARE EARNING AND BE GIVEN THE SAME. AGAIN ABU ISMAIL WENT THROUGH THE LITANY OF WHY GOE COULD NOT NOW AFFORD THIS. HE FINALLY SUGGESTED WE START WITH A 1 PERCENT INTEREST RATE. THEREAFTER, IN A YEAR'S TIME, BY WHICH TIME HE HOPED THE EGYPTIAN ECONOMY MIGHT BE IN SOMEWHAT BETTER SHAPE, WE COULD AGAIN DISCUSS THE QUESTION OF INCREASING THE INTEREST RATE TO 2 PERCENT. HE AGAIN MADE AN IMPASSIONED PLEAS THAT GOE CAN DO NO MORE AT THIS TIME. I AGREED TO PRESENT HIS PROPOSAL TO USG FOR CONSIDERATION, BUT RESERVED RIGHT TO RAISE THE MATTER AGAIN DEPENDING UPON WASHINGTON'S REACTION.

6. AS DEPT/TREASURY AWARE, WE HAVE THUS FAR BEEN UNABLE TO BUDGE THE EGYPTIANS ON A HIGHER INTEREST RATE. MY GUESS IS THAT ABU ISMAIL'S PROPOSAL IS ABOUT THE BEST WE CAN HOPE TO GET IN PRESENT CIRCUMSTANCES WITHOUT THE MATTER OF A HIGHER INTEREST RATE BECOMING A MAJOR ISSUE. IN PRESENT CIRCUMSTANCES, WHEN IT IS ESSENTIAL THAT WE KEEP GOE COOPERATIVE VIS-A-VIS PEACE PROCESS IN COMING YEAR, I THINK IT IS BEST TO ADOPT A GRADALIST APPROACH TO THE MATTER OF HIGHER INTEREST RATES AND ACCEPT ABU ISMAIL'S PROPOSAL.
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PLEASE ADVISE.

7. CHASE DEPOSIT: I ALSO TOLD ABU ISMAIL THAT I HAD TODAY SENT LERCHBAUM'S LETTER TO CENTRAL BANK GOVERNOR ZENDOU ASKING FOR TRANSFER OF LE 10 MILLION TO CHASE AS TIME DEPOSIT. ABUT ISMAIL STRONGLY OBJECTED. AGAIN ADVERTING TO HIS POLICY OF SEEKING TO CURB INFLATION BY CONTRACTING THE MONEY SUPPLY, HE EXPRESSED CONCERN CHASE WILL SEEK TO USE THESE FUNDS FOR LENDING. WITHOUT SUCH LENDING, CHASE COULD NOT POSSIBLY PAY THE 1 PERCENT INTEREST CHARGE. I POINTED OUT LEGISLATIVE REQUIREMENT THAT US DEPOSITS BE WITH AMERICAN OR PARTIALLY AMERICAN BANKS AND NOTED OUR ACTION IS BEING TAKEN TO COMPLY WITH THAT REQUIREMENT.

8. ABU ISAMIL INSISTED CHASE IS A JOINT VENTURE,
NOT AN AMERICAN BANK. ANY SUCH TRANSFER WILL NOT
HELP GOE TO HANDLE ITS PRESENT ECONOMIC PROBLEM.
ZENDOU WOULD HAVE TO CONSULT WITH HIM MINECONCOOP SHAFAI
AND PROBABLY THE PRIMIN BEFORE GIVING ANY FINAL ANSWER. HE
KNEW ZENDOU IS ALSO STRONGLY OPPOSED TO ANY SUCH
TRANSFER (CAIRO 1284). HE URGED THAT USG DROP
THIS IDEA AT LEAST FOR OW. WE COULD TAKE IT UP
AGAIN IN, SAY, SIX MONTHS TIME.
EILTS

NOTE BY OCT: NOT PASSED.

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